

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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South Korea: Economic Overview

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In our judgment, the Rangoon assassinations will not seriously weaken South Korea's impressive economic management capabilities. The country has a large pool of well trained, experienced economists to draw upon. International bankers are watching developments closely but have not panicked.

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Issues for the Future

South Korean economic planners seek to achieve 7.5 percent yearly real GNP growth over the remainder of this decade to accommodate the country's rapidly growing labor force, raise living standards, and generate funds to maintain its heavy defense burden. Seoul's success will be dependent on the rate of economic growth in the developed countries and its ability to handle a changing economic structure which will include more technology intense industries and less government direction in allocating resources.

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Industrial Restructuring. The Chun government has selected microelectronics, computers, machine tools, and sophisticated shipbuilding for rapid growth. Seoul has adopted a broad set of policies aimed at encouraging manpower development, enhancing the country's R&D capabilities, and attracting advanced technology from abroad.

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South Korea has a number of factors working in its favor. The country's highly motivated, well-educated, adaptable work force remains a major advantage. The success of South Korea's move up the technology ladder, however, will depend critically on how well Seoul deals with several internal obstacles--including weaknesses in marketing and quality control and a somewhat

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tarnished foreign investment image--and on how rapidly international demand increases. [REDACTED]

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We believe South Korea's move upmarket will generate increased demand for advanced US production equipment. At the same time, South Korea will increasingly compete with US companies in medium technology products such as home computers, computer peripherals, and machine tools; it will not challenge the United States in a broad range of high technology products.

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Government Management. Top Korean officials are attempting to redefine the role of the government in the economy. Over the past two decades, Seoul has used a full range of financial and price controls and most importantly, control over credit allocation, to direct private investment into designated industries. Key economic policymakers believe the government must now reduce its heavy role in resource allocation decisions and open the economy to greater reliance on market forces. These officials favor turning control of the banking system and credit allocation over to the private sector, reducing subsidies, easing foreign investment regulations, reducing import restrictions, and easing regulations on foreign exchange flows. According to these liberalizers, the economy has become too large and complex for a continuation of the authoritarian economic command and control system. [REDACTED]

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Many traditionalists within the government oppose such changes, and the liberalization trend has been slow. US companies have increasingly complained about Korean regulations on foreign investment and service activities and on restrictions on imports. [REDACTED]

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Foreign Debt. The LDC debt crisis looms over South Korean economic prospects. South Korea, with the fourth largest debt among LDCs, has maintained a manageable debt service burden but is vulnerable to a cutoff in bank lending. To date, South Korea has retained a good international credit rating, largely because of banker confidence in the country's economic management capabilities. [REDACTED]

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Over the next several years, Seoul must attract about \$4 billion annually in new funds and maintain short-term credit lines. If, as seems likely, the international financial community is willing to take on this additional debt, South Korea's balance of payments position should not pose a problem. If bankers do not provide these funds, Seoul would face slower growth; this would make it difficult for the country to sustain increasing levels of defense spending. Under such conditions, Seoul would probably look to the United States for increased security assistance. [REDACTED]

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